



4. Corporate governance

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4. 1. Corporate governance system

Banco Bilbao Vizcaya Argentaria S.A. (“**BBVA**”, the “**Company**” or the “**Bank**”) has a corporate governance system made up of a set of principles, rules, structures and processes which regulate and guide relations between the Company, its management, shareholders and other stakeholders, allowing, at the same time, for an adequate management and oversight of the Bank (the “**Corporate Governance System**”).

BBVA’s Corporate Governance System has been shaped over time based on sound principles that underpin the Bank’s corporate culture and ensure a suitable distribution of functions, balance of powers, transparency and businesses ethics.

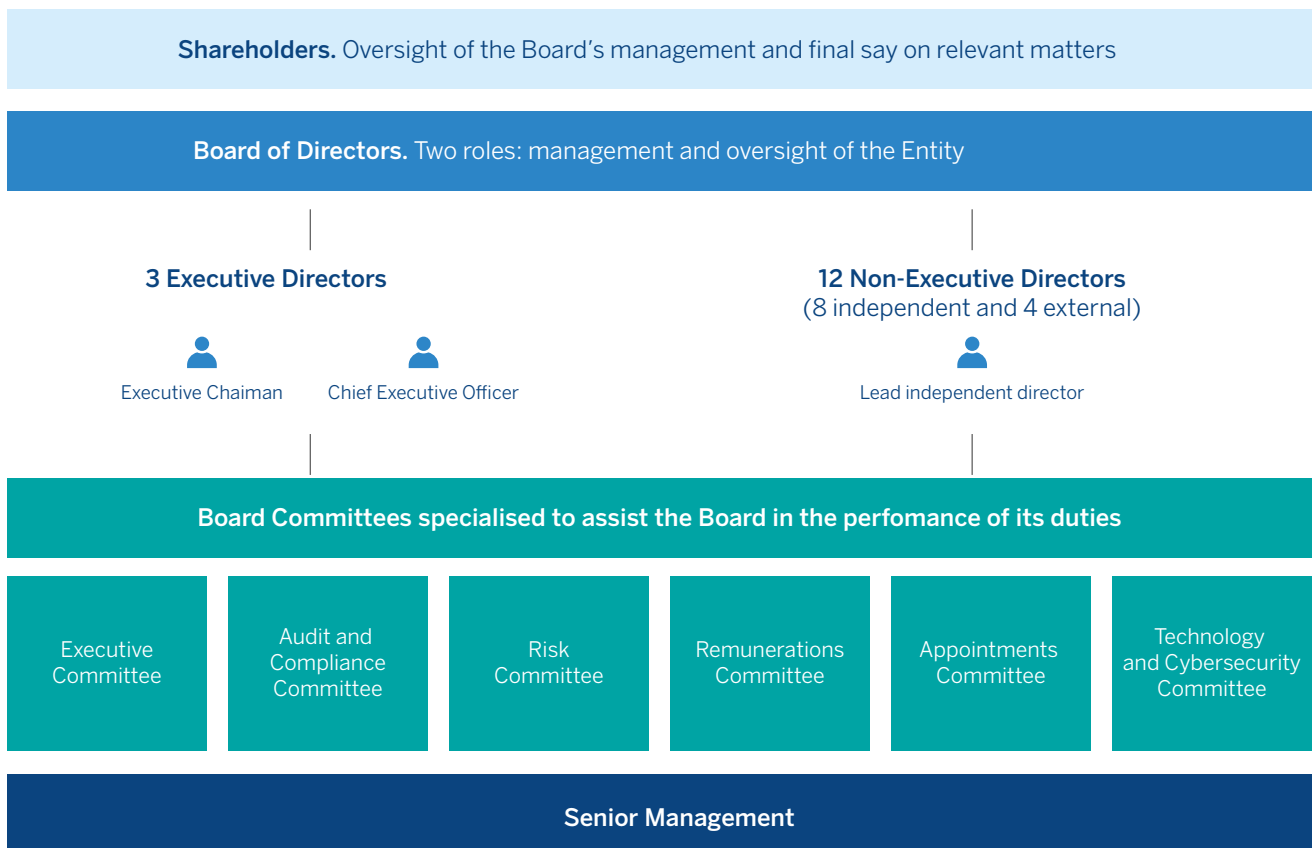
BBVA’s Corporate Governance System has been designed on the basis of its own reality as a company, taking into consideration its circumstances and needs, the different external points of view derived from the dialogue with shareholders and investors, supervisors and proxy advisors (entities who provide advisory services related to voting rights resulting from share ownership of listed companies),

as well as the best practices and recommendations on this matter and regulations applicable to the Bank, in its capacity as a financial institution listed on national and international markets.

Based on the foregoing, the essential features of BBVA’s Corporate Governance System are as follow:

- An adequate composition of its corporate bodies.
- A clear distribution of duties between the Board of Directors and its Committees, and between the Committees and the senior management.
- An orderly decision-making process.
- A sound system for the monitoring, oversight and control of the Company’s management.

BBVA’s Corporate Governance System comprises the following **core elements**:



Shareholders

Considering BBVA's shareholding structure, which has 100% free-float and an important presence of retail and institutional shareholders, both national and international, the Bank's relationship model with its shareholders is predicated on three basic pillars:

1. Respect for the **"one share, one vote"** principle, without imposing limitations on the exercise of shareholders' rights and guaranteeing that all shareholders in the same position are treated equally and afforded the same rights.
2. The General Shareholders' Meeting is reserved the final say on matters of significant relevance for the Company.
3. The existence of a formal **Policy on shareholders and investors' communication and contact**, which: (i) encourage shareholders to participate and exercise their right to vote at the General Meeting; (ii) ensure utmost transparency and disclosure of information for the exercise of their rights; and (iii) promote an active engagement policy with institutional and retail shareholders.

This Policy, which specifies the communication channels with the Bank and the principles of transparency, veracity, immediacy and consistency in the disclosure of information, is available on the Bank's website.

Board of Directors

In line with Spanish regulations, BBVA has a one-tier board system which entails the existence of a **single collegiate body** (the Board of Directors) which is responsible, collectively and individually, for the management of the Bank as well as the oversight and control of the senior management, with the aim of furthering the corporate interest.

The Board's most **relevant functions** are as follows:

Strategy and general policies	Remuneration policy
Risk management and control (RAF)	Financial and accounting information
Annual budgets	Appointment/removal of Senior Management
Capital and solvency	Oversight of Senior Management
Strategic transactions	Internal organization and annual self-assessment

The fact that these responsibilities are reserved to the Board, without the possibility of delegating them, is a key element

for the balance of powers and control, ensuring that the most relevant matters affecting the Company are analysed and decided by the corporate bodies, which also carry out general oversight functions over the Bank.

The **composition** of the Board of Directors is one of the key elements of BBVA's Corporate Governance System, and is aimed at ensuring the appropriate performance of its functions, so that decisions are taken after debating, analysing and critically reviewing the proposals submitted for its consideration, promoting also the necessary consensus for appropriate decisions to be taken, as well as ensuring effective management oversight and control.

For this purpose, BBVA has a **Policy on the selection, appointment, rotation and diversity of the Board of Directors**, which is available on its corporate website. This Policy outlines the principles and procedures for the selection, appointment and rotation of the Bank's directors, as well as the necessary requirements to be fulfilled in order to hold the position of director.

Policy on the selection, appointment, rotation and diversity:

- Suitable composition to ensure the adequate performance of the corporate bodies in the pursuit of the best corporate interest.
- Encourages diversity of experience, knowledge, skills and gender.
- Absence of biases that may entail any kind of discrimination, and female representation target of 30% by 2020.
- Suitable balance between the different categories of directors, with at least 50% being independent directors.
- Director training plans.
- Progressive and continuous refreshment in the Board's composition.
- Suitability, dedication and absence of incompatibilities in directors.

To ensure a correct composition at all times, the Bank has been carrying out an orderly **refreshment process** in the Board, based on an adequate rotation planning, in order to achieve the objectives set out in the aforementioned Policy, identifying the needs of the corporate bodies and the most suitable candidates to be incorporated at any given time. This process also considers the composition of the various Board Committees, which assist the Board in the performance of its duties.

For these purposes, BBVA's Appointments Committee, as part of its duties, regularly analyses the Board's structure, size and composition, and whether these are adequate to meet the needs of the corporate bodies, and as a consequence it identifies and assesses possible changes in such composition that may be necessary or advisable. As a result, selection process may be initiated, where appropriate, for the identification and selection of candidates to be proposed as new members of the Board.

BBVA's Board of Directors has a high **level of independence**, both on the Board and its Committees, which promotes the correct performance of the management, oversight and control functions, guaranteeing objective and independent judgment in the decisions adopted by the corporate bodies. As of the date of this document, BBVA's Board of Directors comprises fifteen directors, three of which are executive directors and twelve are non-executive directors. Of them, eight are independent directors and four external directors, which entail a level of independence that exceeds the 50% threshold established in the Policy.

The **composition** of the Bank's Board of Directors is very **diverse** and combines directors with experience and knowledge of the Group, its businesses and the financial sector in general, with others having relevant training, skills, knowledge and expertise in other fields and sectors of particular interest for the Bank (such as risks, audit, digital businesses, technology and cyber-security), thereby ensuring, as a whole, a suitable balance in the composition of the Board and its Committees for a better performance of duties.

Additionally, the members of the Board have the necessary **suitability**, **repute**, skills, experience and qualifications required to hold their positions, fulfilling the requirements legally established in this regard. They also have the **availability and dedication** necessary to perform their functions. For these purposes, directors are subject to, among others, the incompatibilities and limitation rules set forth in applicable regulations, which provide for a maximum number of directorships they may hold at the same time

In order to assist the directors in acquiring, updating and reinforcing their knowledge and skills for the better performance of their duties, the Board of Directors has various **initiatives** in place **for the training** of its members. These are aimed at offering sufficient and relevant information on various matters, to ensure a proper understanding of all the issues submitted for consideration of the Bank's corporate bodies, which are combined with the extensive information provided in the ordinary meetings of the different corporate bodies.

The Board of Directors has an executive chairmanship model, as well as a CEO who is responsible for the day-to-day

management of BBVA's business. This model provides for a separation between both the positions and the duties of the Group Executive Chairman and of the CEO, ensuring an adequate balance of powers between both roles. Additionally, to reinforce the checks and balances and control system, the Board of Directors has also a **Lead Independent Director**, with the functions conferred both by law and good governance recommendations.

Board's Committees

To better perform the management and control duties, have a suitable decision-making process in place and promote the checks and balances, BBVA's Board of Directors has set up **specific Committees** to assist it in matters falling within their remit. A coordinated working scheme among the Committees and between the Committees and the Board has been established.

The Board of Directors has created an **Executive Committee**, which performs management functions and oversight and control functions. The Executive Committee is a delegated body of the Board of Directors and its mission is to assist the Board in its general oversight function and, in particular, in overseeing the running of the business and monitoring the risks to which the Bank is or may be exposed, as well as in the decision-making regarding those matters falling within the remit of the Board of Directors, provided that they do not constitute non-delegable powers under Law.

There are also four Board Committees (**Audit and Compliance, Risk, Remunerations and Appointments**) which assist the Board in carrying out control and oversight functions, as well as analysing and preparing decisions within the scope of their functions.

Finally, in order to assist the Board in matters regarding technology and associated risks, which is an area of particular interest for the Group, in 2016 the Board has set up a **Technology and Cybersecurity Committee** to assist it in the understanding and acknowledgment of the risks associated to technology and information systems related to the Group's activity and its management and control, particularly with regard to the Group's technology strategy.

These Committees help ensure that the oversight and control functions and the day-to-day management of the Bank are more appropriate and broader in scope. The Audit and Compliance Committee and the Risk Committee have key roles in this regard. The Committees also ensure that the corporate bodies have a suitable decision-making process in place, guaranteeing, through the performance of the duties entrusted by the Board, the analysis and detail of the proposals submitted for consideration and the challenge

of the approaches presented by the senior management through the direct interaction with them.

The Group's Corporate Governance System ensures the correct operation of the Board Committees and the independent performance of the duties through various means, i.e. a suitable composition, a clear and broad allocation of duties, necessary resources and a relevant role attributed to the respective Chairmen, who also have autonomy to act and organise the operation as they see fit. The Committees are also able to request assistance from external expert where necessary to assist them in their functions.

Interaction between the Board and its Committees

As part of its basic elements, BBVA's Corporate Governance System incorporates and promotes a suitable **decision-making process**, in which the work of the Committees and the Board of Directors is integrated and the interaction of the corporate bodies among them and with the Bank's Senior Management is reflected.

In the framework of this process, the Board Committees analyse in detail matters falling within their remit and perform a critical challenge and in-depth review of those issues submitted by Senior Management, for the adoption of the relevant decisions prior to submission to the Board, so that proposals to be submitted to the Board for consideration take into account the opinions, approaches and requirements that arise from this analysis and discussion process and they are in line with the strategies and policies approved by the Board of Directors.

Once these proposals have been approved by the various Committees, they are submitted to the Board for approval and final decision. When the corresponding resolution has been adopted by the relevant corporate body, it delegates the implementation and development of the decisions, at both Bank and Group level, to the managers in charge of the relevant areas, and the appropriate oversight and control systems are established.

This decision-making process allows for the existence of an **oversight and monitoring system** of the Group by the corporate bodies, which is completed with a control structure in the executive area covering all the companies in BBVA Group.

BBVA's senior management, comprising the heads of the Group's corresponding business, control and support areas, reports directly to the corporate bodies on matters falling within their remit, thus receiving the information needed at all times to properly perform the duties.

As a result, the performance of the duties of the Board and its Committees promotes the oversight by non-executive directors not only of the proposals submitted by the heads of the Group's management areas, but also of the implementation and development of the matters that have been approved by the Board, assisted by the work carried out by the different Committees.

Self-evaluation

The quality and efficiency of the operation of the Board and of its Committees is assessed on an annual basis by the Board of Directors through a process directed and coordinated by the Chairman of the Board with the Chairmen of the relevant Committees. This is based on an analysis carried out by the Appointments Committee on the structure, size and composition of the corporate bodies and the activity reports prepared during the year by each Committee, which are submitted to the Board for analysis and assessment.

In order to assess the Board's performance, the Appointments Committee may engage, when necessary, renowned independent experts. The firm Russell Reynolds assisted, as independent expert, in the assessment of the performance of the Board and its Committees carried out in 2015.

This annual, on-going self-assessment helps analyse the efficiency of BBVA's Corporate Governance System, which in turn ensures the correct operation of its corporate bodies and allows for constant evolution in line with the needs and the circumstances that might affect the Bank and its environment.

For further information in this regard, please see the document "[Corporate Governance and Remunerations in BBVA - Overview 2016](#)", which is available at the Bank's website.

4. 2. Compliance system

The Group's Compliance System constitutes one of the bases upon which BBVA consolidates its institutional pledge to conduct all operations and businesses in accordance with strict codes of **ethical conduct**. In line with the principles set forth by the Bank for International Settlements (BIS) and the reference regulations in this area, the Compliance Department continues to articulate its business around the development and implementation of policies and procedures, communicating and training in matters of compliance, and the identification, assessment and mitigation of potential compliance risks, understood as those that affect the following issues:

- Market conduct.
- Dealing with conflicts of interest.
- Prevention of money laundering and terrorism financing.
- Personal data protection.

The **model of compliance risk assessment and management** associated with these matters is global in nature. It is not a static concept; it evolves over time, strengthening those elements and pillars on which it is based and anticipating new developments and initiatives that may arise in this field. This model is built on the following pillars:

- A suitable organizational structure with a clear assignment of roles and responsibilities throughout the Organization.
- Policies and procedures that clearly define positions and requirements to be applied.
- Mitigation processes and controls applied to enforce the compliance of these policies and procedures.
- A technology infrastructure focused on monitoring and designed to guarantee the above objective.
- Communication, training systems and policies implemented to raise employee awareness of the applicable requirements.
- Metrics and indicators that allow the supervision of the global model implementation.
- Independent periodic review of effective model implementation.

In **2016** the documentation and management of the model was strengthened through a set of technological tools and improvements to the internal processes in the different countries. This effort has been particularly significant in Turkey, following the integration of the Garanti group in BBVA.

Standards of conduct

A basic element in BBVA's compliance system is the **Code of Conduct**, updated in 2015 and available on the website bbva.com.

The commitments that contribute to the prevention of corruption in the Group in its relations with suppliers, anti-bribery policies, acceptance of gifts, events management, prevention of money laundering, and commitments regarding politically exposed persons, are all included in the Code of Conduct, and in the specific policies that develop and complement it.

In **2016** BBVA completed a review of the anti-corruption framework to adapt it to the new Code of Conduct. Its gradual implementation across the Group is planned for the upcoming months. In addition, stricter precautionary measures have been applied specifically to the group of politically exposed persons, as already introduced in the past and included in the corporate procedure for action in relation to this matter.

The [Policy for Conduct in the Securities Markets](#) includes the principles and general criteria for action designed to uphold BBVA's integrity in the markets. Specifically, this document contains the minimum procedural guidelines regarding the treatment of privileged information, the prevention of price manipulation, the management of potential conflicts of interest and own account trading by employees.

In addition to these mechanisms, BBVA has established other specific instruments for managing core commitments in each functional area. The most salient of these are:

- Internal standards of conduct in securities markets.
- The Compliance Statue.
- The Code of Ethics for Recruitment of Personnel.
- The principles applicable to those parties involved in the BBVA procurement process.

- The basic principles of risk management and the risk management Policy Manual.
- The regulation on dealing with individuals and entities of public importance in matters of finances and guarantees.

Other basic commitments acquired by the Group are:

- [BBVA's Rules of Conduct in Defense](#).
- The [Environmental policy](#).
- The [Responsible Procurement Policy](#).
- The [Commitment to Human Rights](#) (see section on human rights at the end of this chapter).

In relation to **conduct with customers**, in 2016, the Compliance Department has focused its activity on preparing for the entry into force of the new regulations on investor protection, such as the Markets in Financial Instruments Directive (MiFID II) and the PRIIPs (Packaged Retail and Insurance-based Investment Products). Other measures geared to customer protection during the year have been the following:

- Assessment of risks associated with the Group's products, services and activities and the implementation of measures for their mitigation through the presence of the Compliance Department in the New Product Committees. In 2016 these committees have reviewed 288 new activities, products and operations. In addition, control procedures and routines of the new products and services have been strengthened, and new requirements prior to these products and services have been incorporated and must be verified before their launch.
- Coordination of action plans to adapt to any new requirements and criteria issued by the Spanish Securities and Investment Board (CNMV) and the Bank of Spain on the protection of investors and bank users.
- Close and continuous collaboration with wholesale and retail product and business development units, focusing on digital banking initiatives, with the aim of instilling the concept of customer/investor protection into its projects from the outset.
- Maintenance of the internal regulatory framework up to date to ensure that all product and service sales are compliant with requirements.
- Participation in improvement projects and updating sales processes, as well as the supporting IT systems, seeking

to ensure they are in line with best practices in terms of protecting customer interests.

- Promotion of communication and training initiatives for the sales network and support departments, specifically on advisory and sales practices to related customers .
- Review of the information made available to the public and the sales forces, as well as the promotional campaigns and sales of investment products.
- Enhancement of the compliance risk monitoring metrics and indicators to promote a proactive approach, with a particular focus on customer complaints.
- Evaluation of the internal measures in force, based on internal and external audit reviews and regulatory inspections and requirements.

With respect to the standards of **conduct in the markets**, as a result of the entry into force of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse and its secondary legislation, the standards for integrity have been increased and the compliance units dedicated to these matters have been enhanced. Thus in 2016 capacities in the area of prevention and detection of market abuse have been strengthened, to respond to the new legal requirements. These changes have mainly taken shape in the review of the internal regulatory body to adapt its content to new requirements, improved tools and capacities for detecting suspicious transactions and employee training. Specifically, 811 individual training actions have been developed for employees affected by the regulation. In addition, a general rule has been drawn up for activity related to financial indices. It serves as a general framework that tackles the integrity and appropriate behavior in the area of markets and prevention or management of conflicts of interest in activities related to financial indices.

Prevention of money laundering and terrorist financing

Prevention of money laundering and terrorist financing (hereinafter, PML&TF) constitutes above all an ever-present **objective** that BBVA Group associates with its pledge to make improvements in the different communities in which it operates

For BBVA, ensuring that its products and services are not used for illegal purposes also constitutes an essential requirement for safeguarding its corporate **integrity**, and thereby one of its main assets: the trust of people and institutions it deals with on a day-to-day basis (customers, employees, shareholders, suppliers, etc.) in the different jurisdictions where it operates.

To achieve this objective, as a global financial group with branches and subsidiaries that operate in numerous countries, BBVA has adopted a corporate PML&TF risk management **model** that covers all the compliance issues described above. This model is applicable to all of the entities forming part of BBVA Group within the scope of PML&TF and not only takes into account regulations on prevention of money laundering in the jurisdictions in which BBVA operates, but also incorporates the best practices in the international financial industry in this regard, as well as the recommendations issued by international institutions such as the FATF (Financial Action Task Force). This management model is constantly evolving. In particular, risk analysis ensures that controls can be tightened and any additional mitigating measures that may be required to enhance the model can be implemented.

Progress in **2016** on this area includes the following:

- Increasing human resources assigned directly to the PLD&TF units of each jurisdiction.
- Making progress in improving through centralized guidelines for customer risk categorization or in assigning systems with regard to PLD&TF, based on the factors identified by the sector which are relevant for quantifying the risk of money laundering.
- Upgrading the monitoring systems already in place in all Group areas. In 2015, BBVA adopted the decision to replace the main monitoring tool implemented in the Group. Deployment began in 2016 in Spain and Turkey, and it will continue in the rest of the jurisdictions. Associated with this deployment, best practices will be implemented in the management of alerts to increase the efficiency of the process.
- The development of initiatives opens up new technological opportunities (for example, big data and robotics) that improve BBVA Group's ability to detect suspicious activities in its different entities.

The risk management model of PML&TF is subject to continuous **independent review**. Pursuant to Spanish regulations, an independent expert annually audits the company's system matrix (including supervision of subsidiaries and branches abroad) and all companies subject to PML&TF standards in Spain. This review is complemented by internal and external audits carried out by local supervisory bodies.

Finally, it is worth noting BBVA's **collaboration** with the different governmental bodies and international organizations in this field.

Ethical and legal behavior consultancy

Following its update in 2015, in **2016** efforts have been focused on the communication and dissemination of the new Code of Conduct, as well as training in its contents.

The new Code has been distributed through audiovisual means at a global level, with the involvement of senior management and related departments in the different countries. Videos have been distributed on each of the chapters of the Code at the global level, supplemented with specific communication initiatives for individual groups or countries.

In addition, an online course has been launched at global level, to allow all Group employees to become familiar with the contents of the Code. In 2016 over 96,000 employees have taken the course and the Group's whole workforce is expected to finish it by 2017. In addition, reminders have been issued on the content of the Code at global level, coinciding with events or facts that are particularly relevant and related to their content.

The Compliance team has also continued in 2016 to offer its advice on applying the Code of Conduct. Specifically, 50 individual written and phone queries have been answered. Basically, they focused on carrying out other professional activities, and on the handling and management of potential conflicts of interest.

In the area of PML&TF, each of the Group's entities has an annual training plan for all its employees, which establishes training actions of a varied nature according to the needs identified for each. These training actions are carried out on site, using methods that include e-learning, videos and leaflets, and its content is adapted to the group that is the target of the training.

In 2016, a total of 79,798 employees in the whole Group received training in PML&TF. Of these, 25,149 correspond to groups of employees whose function requires more specific training in the area of PML&TF.

Whistleblowing channels

One of the main mechanisms for **managing conduct risk** in the Group is its whistleblowing channels. As set out in the Code of Conduct, BBVA employees have the obligation not to tolerate any conduct that is contrary to the Code, or any conduct in the performance of their professional duties that may harm the reputation or good name of BBVA. This whistleblowing channel is a mean for enabling employees to report any breaches they observe or are notified by their collaborators, customers, suppliers or colleagues.

The **means** by which employees can report any action or situation that may be in violation of the regulations or values and guidelines of the Code of Conduct are as follows:

- Discuss the case with their supervisor or contact at Talent & Culture.
- Report the case through the whistleblowing channel of the geography or area where they work.
- Make use of the corporate whistleblowing channel, by reporting the case to the Compliance Department at the email address canaldenuncia@bbva.com or the phone number: (34) 91 537 7222. The whistleblowing channel is open to the Group's suppliers.

Human rights

Since 2007 BBVA has a [Commitment to human rights](#), which defines the minimum behavioral basics applicable to all the entities making up BBVA's Group, including all its employees and management team. These fundamentals also guide BBVA's relations with its customers, suppliers and the communities in which it carries out its businesses and activities.

Although this Commitment has been **updated periodically** since its approval in **2016**, an in-depth review has been initiated, taking as a reference [the United Nations Guiding Principles on Business and Human Rights](#). The Principles set out the actions that both states and companies must carry out to comply with their respective obligations to protect and respect human rights and implement the mechanisms needed to restore any adverse impact to those affected by breaches of their rights.

Aware of the key role that companies play because of their responsibility to respect human rights, which is included in the current text of the document, we have begun an integrated cross-cutting process of due diligence (applicable to all the functional areas and the Bank's business and all the geographical areas where BBVA operates).

The aim of this due diligence is to identify issues most relevant to human rights that may impact BBVA's activity. As a result of the process, we will have an updated human rights Commitment and an action and monitoring plan to ensure compliance.

In addition, since 2011 BBVA has participated in the sessions and debates of the **Thun Group**, an informal group of representatives of banks that work together with the primordial aim of understanding the Guiding Principles better in the area of banking and considering how they can be applied in the different banking activities. The Thun Group places particular focus on the exchange of knowledge and experience with the aim of supporting the incorporation of the Guiding Principles in the policies and practices of financial institutions. Occasionally, the Thun Group expresses the results of its deliberations in discussion papers. In January 2017 the Group published its latest [discussion paper](#), on which it has been working in recent years. It proposes a conceptual framework to help consider the significance and scope of Principle 13 for banks in a context of corporate and investment banking. In addition, it reflects on the due diligence addressed in Principle 17.

With the publication of these documents we aim to generate a constructive dialogue between the banks and other stakeholders interested in the issues addressed.

4. 3. Internal control model

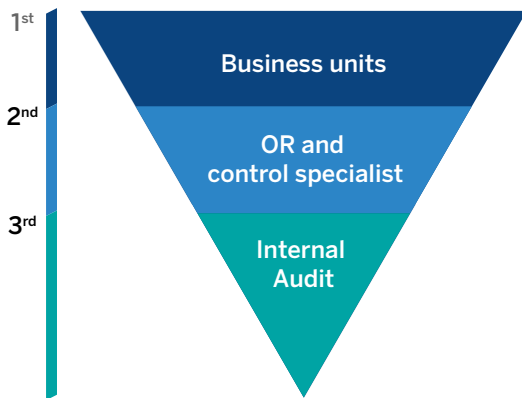
Based on best operational risk management practices, BBVA Group has established and maintained an internal control model organized around three lines of defense (3LoD), as well as a governance scheme called Corporate Assurance. The Group’s internal control model has two **components**.

The first component is the model based on **three lines of defense**, which ensures compliance with the most advanced internal control standards and is organized as follows:

- The Group’s areas and/or business units constitute the first line of defense. They are responsible for managing current and emerging risks, implementing control procedures and reporting to their unit/business or support area.
- The second line of defense consists of the areas/units specializing in control, the main ones being the following: Compliance, Accounting & Supervisors (specifically, Internal Financial Control), Global Risk Management (including, Internal Risk Control) and Engineering (specifically, Internal Operations Control

and Internal Technology Control). This line helps identify current and emerging risks, defines the control policies within the scope of its cross-sector aspect, ensures that they are implemented correctly, and provides training and advice to the unit representing the first line. In addition, one of its main functions is to monitor and question the control activity carried out by the first line of defense. The control activity of the first and second lines of defense will be coordinated by the Global Internal Control Unit within the Global Risk Management area, which will also be responsible for providing these areas/units with a common internal control methodology.

- The third line of defense is made up of the Internal Audit area, for which the Group assumes the guidelines of the Basel Committee on Banking Supervision and of the Institute of Internal Auditors. Its function is designed to provide independent and objective assurance and consulting activity intended to add value and improve the Organization’s operations. The duties and lines of work of this area are described below.



The second component is the **Corporate Assurance** scheme, which has the role of providing a comprehensive and standardized approach to the Board of Directors and the management bodies on the Group’s internal control situation. This provides timely information on the main control weaknesses that may arise in the different assurance processes and makes it possible to prioritize their solution and monitor the implementation of measures for mitigating them more effectively.

To ensure correct operation, the model includes an orderly mechanism for **reporting** to management. The mechanism is made up of a number of committees that meet every four months, in which members of the senior management of the Group and its subsidiaries take part. The committees seek to discover and make decisions on control issues that may have a significant impact on the objectives of the different areas/units, both at the local level and for the consolidated Group.

Internal Audit

The Internal Audit area depends directly on the Group's **Executive Chairman**. It is completely independent from the functions being audited and is not part of any other activity that may be subject to an audit.

Its **functions** imply a universal scope and include all activities and entities in BBVA Group, with no exceptions and irrespective of the geographic location or reporting situation. Its scope also extends to the activities and services the Group has outsourced.

This area has unrestricted **access** to employees, workplaces, systems, IT and physical records and, in general, any information required to perform its functions effectively. It must maintain such information confidential and comply with data protection laws.

A three-year plan was drawn up in **2016**, in compliance with ECB guidelines, in response to the expectations of the main stakeholders.

The plan is structured based on 11 **types of risk**, from which the following main points for action have been derived:

- To cover the main sources of risk in the business model; work has been carried out on defining the indicators linked to the Strategic Priorities, as well as on the circuits established for reporting and monitoring.
- The assessment of internal governance risk is based on evaluation of the organization's framework, the global risk management and the Entity's control framework.
- To cover operational risk, the focus has been placed on data governance and information quality, preventive evaluation of the risks associated with the Group's main transformation initiatives, the operational risk associated with the Group's business processes and management of the projects for integrating the banking platforms in Spain, whose current key process is migration of information from Catalunya Banc, Uno-e and Banco Depositario to the BBVA platform.
- To cover legal risk in the Group the legal risk control framework has been reviewed in Spain and Venezuela and work has been developed on compliance with accounting standards, the financial information control model and regulatory reporting in the main geographic areas.
- Reviews have been carried out on compliance risk in all functional and geographic areas. In addition, audits have been carried out on the prevention policies of money laundering and terrorist financing, the specific laws on consumer protection in various countries, the new Code of Conduct and the reputational risk management model in

the Group, as well as the crime prevention model in Spain and compliance with the data protection law in Peru.

- Through the work on cybersecurity, both the exposure and the response capacity to IT security risks have been precisely evaluated.
- The outsourcing lifecycle has been reviewed to cover risks associated with the outsourcing processes in the Group.
- The sources of credit risk identified have been covered through a review of the portfolios associated with the energy sector in Mexico, Colombia and the United States, through the analysis of the credit quality of customers managed by Corporate & Investment Banking, and through the evaluation of the governance of the provision model defined in the new Bank of Spain Circular (4/2016).
- With respect to financial risks in market activities, annual revisions of the internal models used by the Group have been carried out to determine the capital charges for market risk.
- Asset and liability risks are covered with respect to liquidity by a review of the internal liquidity adequacy assessment process (ILAAP), as well as a review of the mechanisms for the governance, management and control of structural risks.
- The framework of the three-year audit plan covers all the internal capital adequacy assessment process (ICAAP), as well as the compliance with local capital adequacy requirements to which the Group is subject in each of the geographical areas in which it operates. In 2016 the internal stress tests and calculation of the leverage ratio were also reviewed.

Internal Audit Activity: Reports issued by type of risk (BBVA Group, 2016)

Business models	20
Assurance work	11
Due diligence	9
Internal governance	39
Operational	1,269
Assurance work	162
On-site	723
Fraud	384
Legal	67
Compliance	100
Technological	75
Extended enterprise	30
Credit	90
Market	29
Structural risks	18
Capital	19
TOTAL	1,756